COMMENT/ *By Wayne B. Lewin*

For CEOs, a Staffing Crisis

Overall, most banks have weathered the winds of deregulation pretty well.

Oh, isolated problems have cropped up. And with unregulated liability rates, it is a bit more difficult to maintain an acceptable net interest margin. Nevertheless, deposits continue to roll in, and loans are made – things really haven't changed all that much.

Underlying this sense of satisfaction, however, is a fundamental perception that is about to be vaporized.

The business scenario just described assumes that the traditional universe of conscientious, capable, and inexpensive customer contact staff will continue to be available. While we have been reading for years that this population would shrink, it had not yet happened in the banking world, so the natural tendency was to ignore the warnings.

Time of Comfort

Based on my experience over the past 18 months, those comfortable days are about to end.

Officers at virtually every institution I talk to or work with – large as well as small – say: "We are having a very difficult time finding tellers and new account representatives. It is taking longer to fill these positions, and the people we are hiring are at a much lower level of competency than in the past."

Sound familiar? (If you are a CEO and you have not experienced the problem, call your personnel officer and ask whether it is happening. If it isn't, act now because you are lucky to have the lead time. Chances are you will discover it is happening. You just haven't been told.)

Make no mistake. This is not a short-term phenomenon. The demographic data are absolutely clear that this will be with us for the foreseeable future. A declining population is available to take entry-level jobs, and the nation's high schools are producing graduates who often can barely read, write, or compute.

Lines were long, and customers were becoming angry. Like any good commander, this CEO found the teller supervisor and ordered her to "open more windows immediately." He was told there were no more tellers. Overtime guidelines had already been exceeded for the week, and teller openings were chronically unfilled.

Strategic Implications

Believe me, that CEO knows the crisis is here. But more importantly, the crisis has at least two strategic implications.

First, it calls into question the basic business plans that many institutions have spent so much time developing in the past four to five years.

'We are kidding ourselves if we think that traditional hiring, training, and compensation will bring about planned strategic outcomes in today's staffing environment.'

This is a challenge that without a doubt requires the immediate attention of the CEO because it has practical as well as strategic implications.

The solution simply can't be left to the personnel department. I have repeatedly seen CEOs ordering the personnel department to "work harder at finding better people." Problem is, they don't exist – at least not at a salary level that fits within the industry's current economics.

This crisis is now beginning to affect the ability of some organizations to maintain adequate service.

One CEO recently got a rude introduction to the crisis when he ventured into the lobby on a busy Friday morning. He saw that only two teller windows were open and that one teller was also handling the drive-up window.

Many banks intend to differentiate themselves on the basis of quality service. They are expecting much more complex work from their staffs when the employee pool is smaller and less well prepared than ever before.

Practically everyone wants to cross-sell services and make more fee-based sales. But as a recent headline in the *ABA Banking Journal* said: "Forget About Sales – Can Your Teller Add?" We are kidding ourselves if we think that traditional hiring, training, and compensation will bring about planned strategic outcomes in today's staffing environment.

Second, the economics of hiring competent entry-level employees has changed drastically.

I have done research suggesting that entry-level pay would have to be 2.5 times greater, on average, in order to attract truly more competent employees. Raising base pay a few thousand dollars simply attracts the same quality person but with several more years' experience. If anything, that may worsen rather than solve the problem.

Think what would happen to the bottom line if teller and new account staff pay was doubled. In at least one organization I studied, this alone would have almost wiped out the year's net income.

But the challenge does not stop here. People at this next tier are more career-oriented, so they expect more rapid salary increases and promotion opportunities, further straining banks' economics.

Few banks I know of today could use this approach anytime soon. They can't afford it, and the internal structure is not ready to meet such expectations.

(Parenthetically, it should be noted that this may be the only long-term solution. But details of that scenario will be left to a future article.)

Four Steps Recommended

Every CEO should now have a plan to deal with the crisis. In my practice, I have found that four steps must be taken. These must be seen by everyone in the institution as emanating from the CEO's office and having his full support.

Failure to provide this type of leadership will lead to increasing incidents of the type described earlier. One day, the crisis will hit home in some very unpleasant way. These are the four steps:

- Expect and plan for a high rate of turnover in the first 90 days. This means keeping the job-candidate pipeline full. Despite ever more sophisticated recruiting and selection tools, the

See **IMPENDING** *page* **19**

Mr. Lewin is senior vice president, retail banking, at University Financial Savings in Chicago.

GRAPEVINE/ *By Jed Horowitz*

Morgan Cracks Whip. J.P. Morgan & Co. president Douglas "Sandy" Warner played tough guy with the troops last week, telling senior managers they are not meeting cost-reduction goals, a source said. Morgan laid out a plan last summer to cut head count by a reported 10% – or some 1,500 people – by the end of 1990.

Mr. Warner rapped the budget plans submitted by most managers as insufficient to meet the overall target. The source said budget plans that formerly were reviewed perfunctorily are now undergoing tough scrutiny.

"Morgan doesn't have the luxury to be the benevolent institution it has been in the past," the source said. "It's not kinder and gentler; it's tougher and rougher."

A Morgan spokeswoman said the company does not comment on internal management sessions.

The meeting's somber tone also may have been colored by recently awarded bonuses that in most cases were sharply reduced from the previous year.

* * *

Net Net, Citibank Retreats. Citibank has abruptly withdrawn from a foreign-exchange clearing system it was developing with Chase Manhattan Co. and Morgan Guaranty Trust Co. Citibank pulled the plug only days after the money-centers conducted a road show to persuade other big trading banks to join the project.

Sources said Citibankers working on the project were as surprised as their colleagues by the order to withdraw. Apparently, Citibank bosses were concerned that the company was competing against itself. Citicorp's Quotron subsidiary recently won an assignment to develop software support for a rival, though less sophisticated, currency clearing system called FX Net.

Ironically, the decision to award the contract to Quotron was opposed by only two members of the bank-controlled FX Net board: one from Chase and one from Morgan.

Budd Berro, senior credit officer for Citi's North American investment bank, said Citicorp felt it was efficient to focus on the simpler FX Net system, a bilateral netting plan that is further along in development. Both systems are aimed at reducing credit risk and processing costs for interbank currency traders.

Citibank, Chase, and Morgan spent a few hundred thousand dollars developing the multilateral netting plan over the past year. Chase and Morgan continue to recruit other banks to give data and money for the next stage of development.

* * *

Shipley Snubs Gotham. Chemical Banking Corp. chairman Walter V. Shipley says his crusade to wean the bank from New York City is continuing. In a recent speech to New York State bankers, he said his company "doesn't want to be the slave to Manhattan that we have been," noting the difficulty of finding qualified people to work as clerks and tellers.

After the speech, he noted that he has met with recently inaugurated Mayor David Dinkins. The subject: Chemical's threat to move more than 3,000 people in its back-office and other operations out of Manhattan in 1994 unless it can win tax concessions from the city.

* * *

Round Trip in New England. Talk about bad timing. Walter Mercer, who was Citicorp's senior officer in Massachusetts, joined Bank of New England's real estate department just a few months ago. Weeks later, the Boston bank said almost 20% of its real estate portfolio was under water and projected a fourth-quarter loss of $1.2 billion.

Mr. Mercer wants to return his signing bonus so he can rejoin Citicorp, according to a reliable source. Neither he nor Citicorp officials would comment.

His new boss, executive vice president Robert McAleer, concedes the job has changed, but said he is trying to persuade Mr. Mercer to stay. "He thought he was coming in to build the portfolio locally and nationally," Mr. McAleer said. "We want him to manage the Boston Bank's real estate department. Things have changed."

* * *

Baa, Baa, Baankrupt. Call it sheepish black humor. At a recent meeting of bankers who are arranging debtor-in-possession credits for affiliates of the crumbling Campeau Corp., a chalkboard with a picture of a big sheep graced the conference room.

Issuing from the sheep's mouth was a cartoon balloon reading: "Baa, baa, I lost my company."

Company founder Robert Campeau is on a regimen of imported sheep cell injections to keep him youthful, the host bankers explained. When bankers involved in the loan call each other today, one creditor says, they identify themselves with a "baa." □

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San Francisco: Sam Zuckerman (bureau chief). 415-986-8705
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ART
Dylan Kreuzer (assistant director), Peggy Turbett, Carl Zeichner

FEATURES
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STATISTICS
Harvey Glassman, John Ferring

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Regulators Requiring Citicorp to Raise Capital for AMBAC Subsidiary

Continued from *page* 1

form of letters of credit and other financial guarantees.

Although Citicorp has included AMBAC on its balance sheet since purchasing it in 1985, it also has been accused of double counting in including AMBAC's capital to support other activities of the parent. As of June 20, AMBAC's capital stood at $714 million.

Rival financial guarantors also have accused Citicorp of planning to transform existing letter-of-credit businesses into companies like AMBAC. The Financial Guaranty Insurance Corp. told the Federal Reserve Board last summer that Citicorp apparently believes that financial-guarantee insurance policies are not subject to risk-based capital rules that will go into effect at yearend 1992.

"We in Congress have just gone through the trauma of the thrift bailout caused, in part, by lax and inadequate capital standards," Sen. Symms, a member of the Committee on Finance, wrote Comptroller Robert Clarke last November. "This is neither the time nor the industry in which to experience a repeat performance through circumvention of applicable capital standards."

In responses from Mr. Clarke and Fed Chairman Alan Greenspan that Sen. Symms released Wednesday, the regulators said they would not permit Citibank to "deconsolidate" its financial-guarantee activities nor double-count capital from the units.

Mr. Clarke said his office "has informed Citibank that we expect it to consolidate AMBAC onto its balance sheet when computing its risk-based capital requirements," Mr. Clarke wrote. He said the new standard would be phased in over two years beginning Dec. 31, 1990.

In his letter to the senator, Mr. Greenspan said many technical questions remain on how to "calculate the level of capital required to support" financial guarantees. But he said it was clear that double counting is not permitted under the risk-based capital framework.

Citibank has been accused by FGIC, a bond insurance company, and the American Insurance Association of double-counting its capital at AMBAC Indemnity.

They charged that Citicorp reserved just $65 million in capital against AMBAC's $1.1 billion in assets, according to petitions sent to the Fed.

Since AMBAC has capital of approximately $630 million, Citicorp is free to use the remaining $535 million as capital, said Bonita Z. Dorland, vice president and director of FGIC's financial institutions group.

"Essentially, a conflict arises because insurance regulators count the full $630 million in capital as dedicated to AMBAC's policyholders, while the Fed counts $535 million as available for bank depositors,' Ms. Dorland said. □

U.S. Banks Take Steep Losses In Third World

Continued from *page* 1

J.P. Morgan & Co., $1.8 billion; and Manufacturers Hanover Corp., $1.6 billion.

Officials at these institutions said they plan to continue aggressively disposing of their Third World loans.

"We're still going down. We don't plan to level," said Paul McGonagle, senior vice president in charge of country risk management at First Chicago.

Sales in Secondary Market

Most of the Third World loans are being sold on the secondary market, where banks buy and sell their foreign debt on behalf of governments and private customers.

They are also negotiating debt-reduction agreements, generally a less costly method. For example, U.S. banks signed an agreement on Sunday to reduce the principal on their loans to Mexico by 35%, but refused to advance the country additional loans. In the secondary market, Mexico is estimated to have bought as much as $6 billion worth of loans at discounts of up to 60%.

"We could have sold out on Mexico at 40 cents on the dollar, but ended up by getting 65 through the latest agreement," one banker in New York pointed out. □

Fed Wins Court Fight Against BancTexas

DALLAS — The Federal Reserve Board won a court battle Tuesday that permits it to go ahead with plans to force BancTexas Group Inc. to inject capital into two banking subsidiaries.

The U.S. District Court for the Northern District of Texas refused to grant BancTexas Group's request to bar the Fed from applying its source-of-strength doctrine and require the holding company to bolster its subsidiary banks with capital. □

CNB to Buy Kentucky Bank

EVANSVILLE, Ind. — CNB Bancshares Inc. said it had agreed to acquire Kentucky's Henderson County State Bank from Henderson Financial Corp. for $1.75 million.

The deal for the bank, which has assets of $23 million, is subject to definitive agreement and regulatory approvals.

The firms said the transaction is expected to be completed in the second quarter. □

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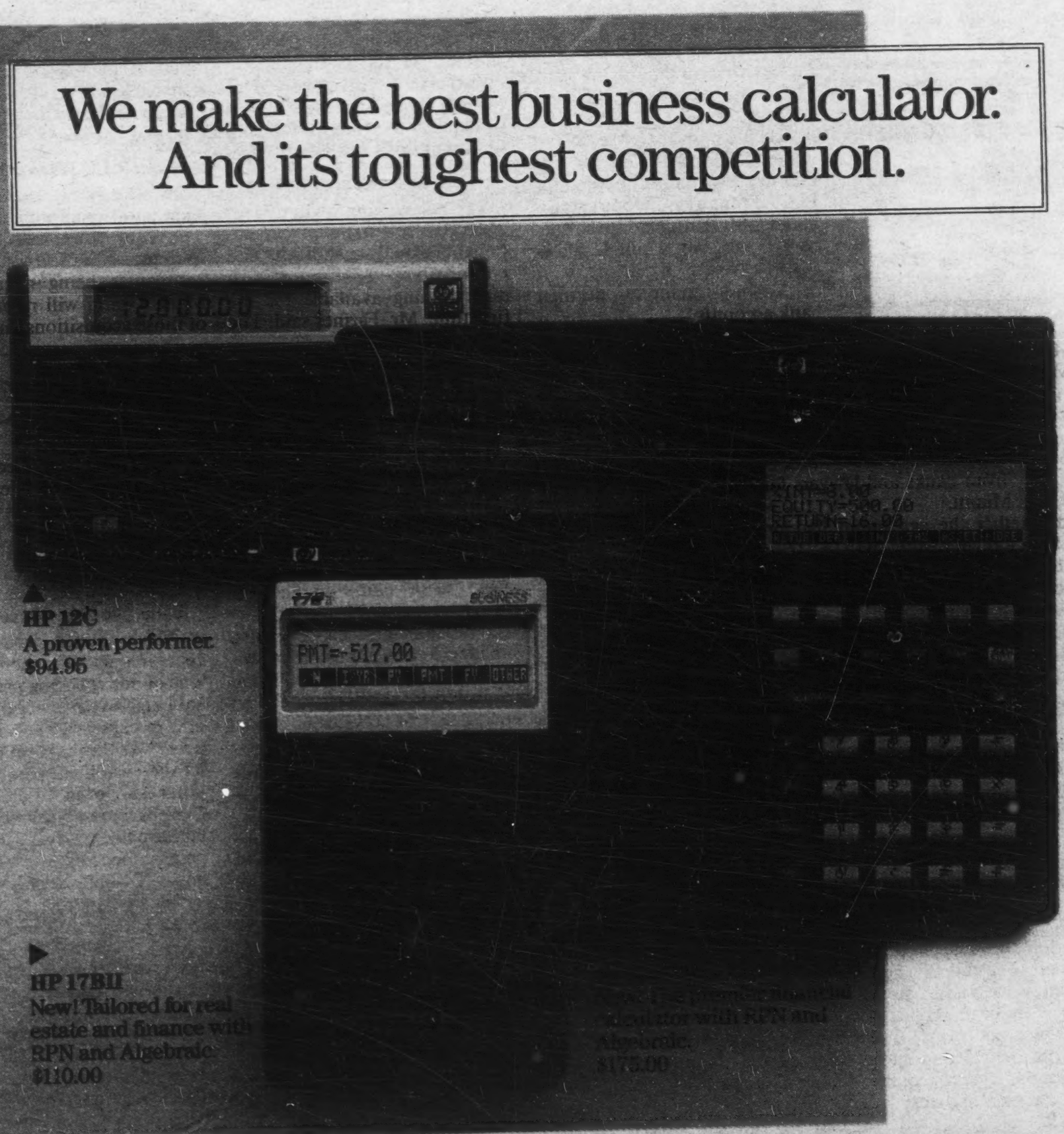

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Rosenberg Seen Building B of A In Western U.S.

By SAM ZUCKERMAN

SAN FRANCISCO — Richard M. Rosenberg's selection as BankAmerica Corp. chairman and chief executive is likely toaccelerate the company's transformation from a global banking powerhouse to a western superregional, company insiders and analysts say.

Mr. Rosenberg, who will succeed A.W. Clausen after the company's annual meeting on May 24, has limited international banking experience. The 59-year-old executive has spent almost his entire career in marketing, and analysts expect he will focus on retail and commercial banking in the West.

ANALYSIS *Follow-up on the news*

"International lending is not [Rosenberg's] strength," said a Bank of America executive who asked not to be identified.

Mr. Clausen, who had turned Bank of America into a major international player by the time he first retired in 1981, grudgingly consented to scale back international activities when he returned for a second tour of duty four years ago. But analysts say Lewis W. Coleman, the bottom-line-oriented head of Bank of America's world banking group, was not able to make all the cutbacks he felt were needed.

"Tom Clausen restrained Lew Coleman from acting more quickly and severely in withdrawing from markets and businesses," says PaineWebber analyst Thomas K. Brown. "The combination of Mr. Coleman and Mr. Rosenberg won't hesitate to further reduce the World Banking Group."

Flair for Downsizing

Mr. Brown says of Mr. Coleman: "I can't think of another person who takes such pleasure in downsizing his area."

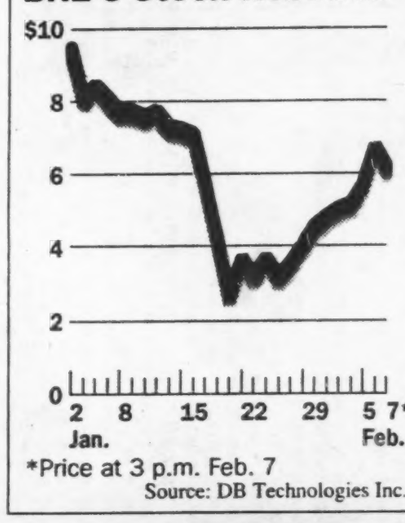
Mr. Rosenberg and his top deputies, including vice chairman and chief credit officer Glenhall E. Taylor Jr. and vice chairman and chief financial officer Frank N. Newman, as well as Mr. Coleman, all did stints at Wells Fargo & Co., where they absorbed that organization's disciplined, cost-efficient approach.

Under their direction, BankAmerica is likely to become more like its San Francisco rival in strategic focus and a strict emphasis on profitability. Their approach allows little room for the kind of considerations of global prestige that landed Mr. Clausen the presidency of the World Bank in 1981.

See **ROSENBERG** *page* **9**

INSIDE NEWS

BNE's Stock Rebound



*Price at 3 p.m. Feb. 7
Source: DB Technologies Inc.

FINANCE

THE RALLY in Bank of New England shares faltered, although rumors persisted that a big piece of the company might be sold to Citicorp. *Page 16*

INTERNATIONAL

U.S. COMPANIES led the field last year in raising international bank loans for global merger activity, the Bank of England reports. *Page 10*

TECHNOLOGY

QUOTRON, Citicorp's troubled information unit, plans to buy American Financial Systems, a Pennsylvania software company that specializes in portfolio management systems for brokerage houses. *Page 3*

MANAGEMENT

LARGER-THAN-LIFE characters from literature and history provide models for modern-day managers at the Consumer Bankers Association course in leadership. *Page 8*

CONSUMER

ROCKY MOUNTAIN Bank Note, a check printer in Denver, has entered an "affinity checking" deal that benefits the U.S. Ski Team. *Page 6*

COMMENT

TIME-SAVING strategies win points with consumers who have grown accustomed to this convenience in other markets, writes William M. Isaac. *Page 4*

INDEX

People in the News	2
News Briefs	2
Company Index	2
The Lobbyists	4
Marketing	6
Classified Advertising	12
Bank and Thrift Stocks	15

AT&T Asks Banks to Join EDI Venture

By RICHARD LAYNE

ORLANDO, Fla. — Boosting the communications and payment technology known as electronic data interchange, American Telephone & Telegraph Co. is seeking an alliance with bankers to offer financial data interchange to corporations.

AT&T is the second corporate giant offering to join forces with large banks to incorporate EDI in cash-management services. Late last year, an affiliate of Sears, Roebuck and Co. formed a partnership with leading cash-management banks to combine funds-transfer information and other documentation in EDI transmissions.

Compatibility Explored

In EDI, corporations exchange invoices, advices, and other documents in electronic form. Banks have been exploring ways to make it compatible with the payment and cash-management services that are a significant source of their fee income.

The AT&T combine, like the

See **AT&T** *page* **7**

3 Regulators Clarify 'Highly Leveraged'

By BARBARA A. REHM

WASHINGTON — Federal regulators clarified their definition of highly leveraged transactions on Wednesday and, in the process, reduced the number of loans that banks will have to disclose as risky.

The revision came in response to criticism that guidelines released last October were too vague. Those guidelines, aimed at presenting a better picture of the riskiness of bank lending portfolios, were expected to result in huge increases in the loans classified as financing leveraged buyouts and other risky transactions.

The revision does not substantially alter the original definition. But it does effectively ease the terms in some cases, bankers said. For example, while the original definition did not set a minimum for affected loans, some bankers thought they had to include loans exceeding $5 million. But the revised rules specify a minumum of $20 million.

However, the regulators denied bankers' requests to exempt loans to cable and media companies from the highly leveraged transaction, or HLT, classification.

Changes in Rules On Leveraged Loans

The new guidelines:

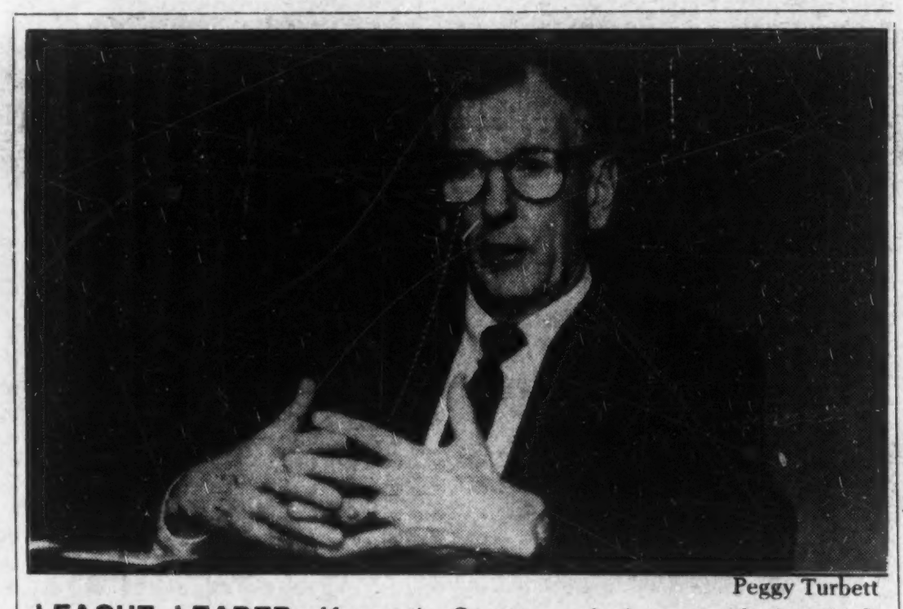
- **Limit the transactions affected to buyouts and full-business recapitalizations.**
- **Include loans to media and cable companies.**
- **Exclude loans smaller than $20 million.**
- **Specify when performing loans can be exempted.**

Michael L. LaRusso, senior national bank examiner at the Office of the Comptroller of the Currency, explained that some bankers have been assuming cable and media company loans were excluded because these companies normally have high debt.

"That was the biggest industry the banks were not including in their HLT portfolios," he said. "We never contemplated excluding those loans."

Regulators do not limit the amount of highly leveraged

See **REGULATORS** *back page*



Peggy Turbett

LEAGUE LEADER: Kenneth Seaton, chairman of the U.S. League of Savings Institutions.

U.S. League Committee Opposes Efforts to Shut Down the OTS

By WENDY GROVER

NEW YORK — A key committee of the U.S. League of Savings Institutions voted this week to oppose attempts to abolish the Office of Thrift Supervision, Kenneth Seaton, chairman of the trade group, said Wednesday.

In a meeting with *American Banker* reporters and editors, Mr. Seaton acknowledged that some thrift executives feel overburdened by OTS regulatory demands. But the league's federal affairs regulatory committee, at a meeting on Monday night, decided to support keeping the OTS in place rather than shifting thrift regulatory authority to the Office of the Comptroller of the Currency.

Rep. Charles Schumer, D-N.Y., plans to introduce a bill next week that would put state-chartered and federally chartered thrifts under the Comptroller, who primarily regulates national banks, and thrift holding companies un-

See **LEAGUE** *page* **9**

First Interstate Delays Offering At SEC's Order

By STEVE KLINKERMAN

DALLAS — First Interstate Bancorp said Wednesday that it has been forced to delay its $400 million stock offering for the second time because the Securities and Exchange Commission has ordered it to make additional disclosures.

A First Interstate spokesman refused to discuss the nature of the disclosures demanded by the securities industry watchdog. But he confirmed that the Los Angeles company plans to put $60 million more capital than previously disclosed into its ailing Texas unit.

Delay in January

First Interstate's 7.5 million-share stock offering was delayed last month after the SEC ordered additional disclosures about the corporation's Texas and Arizona units.

The company released an amended registration statement Jan. 31 disclosing that the SEC had "made an informal inquiry" concerning fourth-quarter loan-loss provisions and that regulators had barred its Arizona and Texas units from paying div-

See **DISCLOSURE** *page* **12**

PEOPLE *in the news*

Citibank's Debt Negotiator Moves to International Post

By JED HOROWITZ

William R. Rhodes has made it official. The banker whose name has become synonymous with hard-nosed Third World debt workouts is stepping back from the negotiating fray to take on more statesmanlike duties.

Citibank announced Wednesday that Mr. Rhodes, 49, has been promoted to senior executive, international. He will be responsible for "contacts with the many worldwide and Washington constituencies that touch on the company's international business," according to the nation's largest bank company.

Mr. Rhodes also will supervise the management of Citibank's cross-border portfolio. His previous job as chairman of the bank's restructuring committee will be assumed by Robert A. McCormack, who will become chief negotiator for the restructuring of Citicorp's $8.6 billion of long- and medium-term debt.

William R. Rhodes

Mr. McCormack, 46, is a vice president who has been on the bank's restructuring committee since the middle of 1987.

Mr. Rhodes' desire to take a break from the prestigious but wearing role of chief tough guy was well known. "I'm the last of the Mohicans," he told a reporter last year, shortly before he began landmark negotiations to restructure $54 billion of Mexican bank debt. "All the other major players in the debt talks in 1982 have gone on to other things. I don't want to spend the rest of my career doing this."

The New York City native, who joined Citicorp in 1957, spent Wednesday – his last day as chief negotiator – at a signing ceremony celebrating completion of the Mexican debt package, a bank spokesman said.

In addition to cochairing the Mexican creditors' committee, Mr. Rhodes has chaired industry negotiating panels on the debt of Argentina, Brazil, Peru, and Uruguay.

While it is trying to recoup as much of its loans as possible, Citicorp chairman John S. Reed remains intent on building a strong banking franchise in Latin America. Citicorp is the only major bank that agreed to provide new funds to Mexico as part of the new debt package. Mr. Reed, who spent part of his boyhood in Argentina, has a strong personal interest in Latin America.

Mr. McCormack will report to Mr. Rhodes, who reports to Mr. Reed. Mr. Rhodes' new role as ambassador to the international community was previously held by George J. Clark, who retired Feb. 1 after 26 years with Citicorp. □

4th Quarter Earnings at Top Southeast Banks

Assets in billions, net income in millions

	Assets 12/31/89	Assets 12/31/88	Net income 4Q '89	Net income 4Q '88	Percent change
NCNB*	$66.2	$29.8	136.2	$64.3	112%
[illegible] Union	32.1	29.0	38.6	70.5	(44)
SunTrust Banks	31.0	29.1	84.6	79.1	7
Barnett Banks	27.3	27.3	64.9	57.5	13
Sovran Financial	25.4	22.5	72.6	68.1	7
First Wachovia	24.1	21.8	69.0	62.1	11
Citizens & Southern	23.3	21.1	60.3	54.5	11
Southeast Banking	16.5	15.6	(15.3)	24.9	NA
Signet Banking	12.5	11.0	32.7	28.3	16
Crestar Financial	11.4	10.8	27.6	22.3	23

*Acquired FirstRepublic Bancorp in August, 1989

Source: Company reports

Southeast Banks Rebound, Raising Profits in Quarter

By KENNETH CLINE

ATLANTA — Having rebounded from the credit problems and margin pressures experienced earlier in the year, major banks in the Southeast posted healthy profit increases in last year's fourth quarter. But analysts are predicting slightly lower profits this year.

"Generally speaking, there was no evidence of dramatic problems," said Jon Burke of Robinson-Humphrey Co. in Atlanta. "The problems that do exist are focused on individual markets and individual financial institutions."

Mr. Burke said profits of the major banks on average rose 12 to 13% in 1988, which was consistent with their historical levels. But he said earnings of major banks this year would increase only about 9 or 10% be-

See **SOUTHEAST** *page* **11**

Corrections

A Feb. 7 news analysis ("Bankers Given Better News on Debt Guideline," page 1) misstated the position the American Institute of Certified Accountants is expected to take on accounting for certain debt instruments. In the article's first reference to the possible position, a sentence should have read, "Based on early reports, the new guidelines will allow banks to hold debt securities at historical value if they are likely to hold them for at least one year."

■

The minority general counsel for the Senate Banking Committee is Ray Natter. His first name was given incorrectly in the signature of his Jan. 31 letter to the editor ("Committee Aide Has a Defender," page 5). □

Hawaii Deal A Departure, WSGP Says

By SAM ZUCKERMAN

SAN FRANCISCO — Despite agreeing to a quick sale that will result in a spectacular profit on their Hawaiian bank company, former Treasury Secretary William E. Simon and his partners expect to stick to a strategy of holding their remaining banks and thrifts three to seven years before selling, a cofounder of the group said.

"A unique set of circumtances" allowed WSGP International Inc. to more than double its investment by agreeing to sell $812 million-asset First Interstate of Hawaii Inc. just one year after buying the Honolulu-based banking company, co-chairman Gerald L. Parsky said. For the three thrifts and one bank it still owns, the firm has "an approximate five-year plan" to build franchise value before selling out, he noted.

An Irresistible Offer

Those unique circumstances amounted to an offer WSGP couldn't refuse. The firm agreed to sell the Hawaiian banking company to First Hawaiian Inc., the state's second-largest banking organization, for 2.3 times book value at closing, a price Mr. Parsky estimated would be $135 million to $140 million when the deal is completed in six to nine months.

In February 1989, the firm bought First Interstate for about $60 million, on a par with book value.

Total profits will be even higher because the original purchase was partially financed, Mr. Parsky said.

"They got a top price from a willing purchaser prepared to pay full value," said James M. Rosenberg, analyst with Shearson Lehman Hutton Inc. □

NEWS *briefs*

Brady Minimizes Difference With Fed on Interest Rates

WASHINGTON — Treasury Secretary Nicholas Brady played down the administration's disagreement with the Federal Reserve over interest rates, saying reports of these kinds of dispute are sometimes overblown.

It's just a question of nuance, Mr. Brady told the House Appropriations Committee on Wednesday. The administration's focus is more on maintaining growth than on containing inflation, he said, and the Fed is more concerned about inflation.

— Reuters

Higher Capital Level Urged For 2 Mortgage Agencies

WASHINGTON — The government should take greater steps to ensure the safety and soundness of two large mortgage agencies, a Senate banking subcommittee was told Wednesday.

Washington lawyer Thomas Stanton said the Federal Home Loan Mortgage Corp., or Freddie Mac, and the Federal National Mortgage Association, or Fannie Mae, should boost their capital to "levels comparable to those now being required for thrifts and commercial banks."

But David O. Maxwell, chairman and chief executive of Fannie Mae, told the panel his agency is "a strong, stable, financially sound company that Congress and American taxpayers don't have to worry about."

Leland C. Brendsel, chairman and chief executive of Freddie Mac, said it would take "an economic catastrophe worse than the Great Depression" to make his agency a federal liability.

— Phil Roosevelt

Merged 1st Pennsylvania To Get Fitch Debt Upgrade

NEW YORK — Fitch Investors Service Inc. said Wednesday it will upgrade its rating of securities of First Pennsylvania Corp. and lead unit First Pennsylvania Bank after they are acquired by CoreStates Financial Corp.

Fitch said it will increase, to AA-minus, both its BBB-plus rating on the bank's subordinated capital notes and its BBB-minus rating on the corporation's convertible subordinated debentures. The merger is expected to be completed this quarter.

— Reuters

COMPANY *index*

This index lists significant references to companies and banks in today's issue. Page numbers refer to where stories begin.

A - B
American Airlines 6
American Bankers Assn. 8
American Express 4,6,10
American Financial Systems 3
AmSouth Bank 8
AT&T 1,3
Automatic Data Processing 3
Bank of Boston State Street 16
Bank of New England 16
Bank of New York 16
BankAmerica 1
Bankers Trust 1,14,16
Barnett Banks 2
BayBanks 16
Alex. Brown & Sons 3

C
Canadian Imperial Bank of Commerce 10
Chase Manhattan 1,6,16
Chemical 1,16
Cirrus System 6
Citgo Petroleum 14
Citicorp 1,2,3,4,8,14,16
Citizens and Southern 2
Connecticut Bank & Trust 16
Consumer Bankers Assn. 8
Continental Bank 1,14
Cooperative Marketing 6
CoreStates Financial 1,2
Country NatWest Securities 1
Credit Union National Assn. 4

D - F
D&N Savings Bank 1
De Plano Design 6
Dean Witter Reynolds 16
Drexel Burnham Lambert 1,16
EDI Education 1
Fannie Mae 2
First American 2
First Chicago 1,16
First Fidelity 16
First Hawaiian 2
First Interstate 1,8
First Pennsylvania 2
First Union 2
First Wachovia 1,2
Fitch Investors Service 2
Fleet/Norstar Financial Group 16
Florida National Banks 2
Ford Motor 10
Freddie Mac 2
Freeman Co. 4

G - L
GE Capital 1
Great American Bank 8
Harris Trust & Savings 1
Huntington Bancshares 8
IBM 3
Intellimation Systems 3
Interstate/Johnson Lane 2,3
Issues 6
Key Bank 8
Kodak 6
LIN Broadcasting 14
Lintas Worldwide 6
Loan Pricing 1
Lotus Development 3

M - O
Manufacturers Hanover 1,14,16
Marine Midland 6
Martin Agency 6
MasterCard International 6
McCaw Cellular Communications 14
Mellon 1,16
Merrill Lynch 3
Metromedia 14
MNC Financial 6
Moody's Investors Service 10
J.P. Morgan 14
Mortgage Bankers Assn. of America 4
Mortgage Insurance Cos. of America 4
National Assn. of Realtors 4
National Bank of Detroit 1
National Westminster 3
NCNB 2,6
NCR 3
Northern Telecom 3
Northern Trust 1
Nynex 3

P - Q
PaineWebber 1,16
PNC Financial 16
Promotional Marketing 6
Prudential-Bache 1
Quotron Systems 3

R - T
Rauscher Pierce Refsnes 1
RJR Nabisco 8
Robinson-Humphrey 2
Rocky Mountain Bank Note 6
Sears, Roebuck 1
Security Pacific 1
Shawmut 6
Shearson Lehman Hutton 2,16
Shell Oil 1
Signet Banking 8
Southeast Banking 2
Southland 14
Sovran Financial 2
SP Associates 8
SpencerStuart 8
SunTrust Banks 2
Toronto Dominion Bank 14
Translink 10

U - Z
U.S. League of Savings Institutions 1
Visa 6
Wells Fargo 1
Wheat, First Securities 2
WPP Group 6
WSGP International 2
Young & Rubicam 6

NOTE

ONLY THE FOLLOWING PAGES OF THIS

PUBLICATION HAVE BEEN FILMED

Cov. 1, Pgs: 2, 4, 10